

Message Text

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ACTION AF-06

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CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 8431

INFO AMEMBASSY LONDON

AMEMBASSY THE HAGUE

C O N F I D E N T I A L LAGOS 2516

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: OIL COMPANIES DISCUSS SQUEEZE BY NIGERIAN GOVERNMENT

REF: LAGOS 2457

1. CHARGE MET AFTERNOON OF MARCH 14 WITH US OIL COMPANY REPS TO DISCUSS IMPLICATIONS FMG TAX AND ROYALTY DEMANDS REPORTED REFTEL (AND ALSO IN MARCH 10 PIW).

2. GULF, MOBIL, PHILLIPS, AND TEXACO REPS WERE PRESENT ALTHOUGH LAST TWO, ALONG WITH AGIP AND ELF, HAVE NOT YET BEEN APPROACHED BY FMG.

3. GULF AND MOBIL SAID THAT IN AFTERMATH OF MINISTRY OF MINES AND POWER DEMARCHE TO THEM (AND TO SHELL-BP), THEY PRESENTED COUNTER PROPOSALS TO MMP (AS HAS SHELL-BP) AND ARE AWAITING MMP'S REACTION. THEY ADDED THERE ARE NO PLANS NOW FOR FURTHER MEETINGS BETWEEN MMP AND COMPANIES AND THEY FEARED MMP MIGHT NOW ACT TO IMPOSE ITS DEMANDS, ALTHOUGH THEY ALSO EXPECT MMP WILL
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FIRST SEEK APPROVAL FROM FEDERAL EXECUTIVE COUNCIL (FEC).

4. IN THE MARCH 14 DISCUSSION ALL FOUR COMPANIES DESCRIBED TAX AND ROYALTY DEMANDS AS UNTENABLE. ACCORDING COMPANIES, APPLICATION OF THE NEW ARRANGEMENTS WOULD ENSURE THAT ALL COMPANIES PRODUCING IN NIGERIA, INCLUDING SHELL-BP, WOULD SUFFER LOSS ON ALL BARRELS PRODUCED. AS RESULT COMPANIES WOULD BE COMPELLED, IF THEY ACTED IN KEEPING WITH ECONOMICS OF NEW SITUATION, TO CONTEMPLATE CUTBACKS IN THEIR INVESTMENT PROGRAMS, AND SERIOUSLY TO CONSIDER REDUCTION IN NIGERIAN LIFTINGS.

5. COMPANIES HAD NOT COMPLETELY ABANDONED HOPE THAT FMG MIGHT MODIFY ITS PROPOSALS IN ORDER TO ALLOW FMG AND COMPANIES TO SHARE RETURNS ON MORE GENEROUS BASIS THAN 99/1 RATIO IMPLIED IN PROPOSED NEW TAX/ROYALTY STRUCTURE BUT ANY SPLIT THAT FELL SHORT OF LAST YEAR'S 95/5 RATIO WOULD STILL LEAVE COMPANIES IN UNTENABLE POSITION. COMPANY REPS SUGGESTED THAT, IF FMG COULD NOT BE PERSUADED TO MODIFY TAX/ROYALTY PROPOSALS, COMPANIES WOULD HAVE TO SEEK COMPLETELY NEW AND DIFFERENT ARRANGEMENTS IN ORDER CONTINUE PROFITABLY OPERATIONS IN NIGERIA, AND THEY MENTIONED POSSIBILITY 100 PER CENT TAKEOVER BY FMG. SOME REPS WONDERED IF THAT WAS IN FACT MOTIVATION BEHIND FMG DEMANDS.

6. COMPANY REPS ALSO SPECULATED ABOUT FACT THAT MINISTRY OF MINES AND POWER PERM SEC ASIODU HAS SO FAR NOT TAKEN PART IN MEETINGS WITH SHELL-BP, GULF, AND MOBIL WHERE FMG TEAM WAS LED BY ACTING DIRECTOR OF PETROLEUM RESOURCES LOLOMARI. THE COMPANIES FEEL CERTAIN THAT ASIODU (BUT FEW IF ANY OTHERS IN FMG) WOULD BE CAPABLE OF RECOGNIZING THE SERIOUS CONSEQUENCES OF THE FMG'S NEW DEMANDS. HE MAY HAVE INTENTIONALLY SET THESE IN MOTION (AND LEFT UNDERLINGS TO DRIVE THEM HOME) FOR HIS OWN REASONS (SUCH AS FORCING THE COMPANIES TO SEEK 100 PER CENT PARTICIPATION). COMPANIES BELIEVE, HOWEVER, THAT FOLLOWING LAST MONTH'S REAPPOINTMENT OF MINES AND POWER COMMISSIONER MONGUNO, ASIODU MAY SOON BE LEAVING MMP, AND IF THAT IS SO, HE COULD HAVE STAYED AWAY FROM THE MEETINGS BECAUSE HE KNOWS THE GOVERNMENT'S COURSE IS UNWISE AND DOES NOT WISH TO BE PARTY TO IT, OR SIMPLY BECAUSE MONGUNO ORDERED HIM TO STAY AWAY.

7. WHETHER ASIODU INVOLVED OR NOT, FMG SEEMS TO WANT TO BE SEEN APPLYING THE OPEC 85-20 FORMULA AND, AS ALWAYS, TO MAXIMIZE
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GOVERNMENT TAKE. IT SEEMS LIKELY, THEREFORE, THAT, RATHER THAN ACTING OUT OF DESIRE FOR 100 PER CENT TAKEOVER, FMG IS SIMPLY PUTTING TIME-HONORED SQUEEZE ON COMPANIES, AND, HAVING IN MIND THAT, IN SPITE OF PROTESTATIONS, COMPANIES APPARENTLY ADJUSTED TO EARLIER SERIES OF SQUEEZES HERE AND ELSEWHERE, FMG MAY BELIEVE THAT THESE LATEST PROTESTATIONS HAVE NO GREATER VALIDITY AND THAT COMPANIES CAN AND WILL ADJUST TO THIS LATEST SQUEEZE. IN THIS CONNECTION IT IS IMPORTANT THAT FMG PROBABLY LOOKING NOT ONLY

AT COMPANIES UPSTREAM PROFITS WITHIN NIGERIA BUT ALSO AT PROFIT PICTURE ON COMPANIES' WORLD WIDE ACTIVITIES, INCLUDING DOWN-STREAM OPERATIONS.

8. COMPANY REPS CLEARLY FRUSTRATED. THEY TAKE FOR GRANTED LOLOMARI ACTING ON INSTRUCTIONS, BUT THEY ARE NOT SATISFIED THEY KNOW ON WHOSE INSTRUCTIONS. NOR DO THEY UNDERSTAND REASONS THAT WOULD IMPEL FMG TO DRIVE INTO WHAT THEY ALLEGE IS CORNER COMPANIES ON WHICH NIGERIA'S CURRENT AND PROSPECTIVE PROSPERITY HEAVILY DEPENDENT. MOST OF ALL, THEIR FRUSTRATION CENTERS ON INABILITY DECIDE WHAT THEY CAN DO NOW OR NEXT TO INFLUENCE DECISIONS EXPECTED FROM FEC. COMAPNIES CONSIDER IT PUTS AT RISK THEIR RELATIONS WITH MMP IF THEY ARE SEEN TRYING TO INFLUENCE MINISTRIES OTHER THAN MMP AND, IN ANY EVENT, OTHER MINISTRIES REPRESENTED ON FEC PRESUMABLY JUST AS ANXIOUS AS MMP TO MAXIMIZE OIL REVENUES, AND MORE LIKELY TO ACCEPT MMP'S VERSION OF COSTS AND EARNINGS THAN COMPANIES', IF INDEED THEY WOULD BE DISPOSED TO EXAMINE TECHNICAL ASPECTS.

9. COMMENT: IN OUR MARCH 14 MEETING, WE SOUNDED OUT COMPANY REPS ON POSSIBLE DESIRABILITY OF EMBASSY INTERVENTION, BUT THEY DID NOT DEVELOP CONSENSUS FOR OR AGAINST. DURING THE MEETING AND IN SEPARATE CONVERSATIONS, TWO COMPANIES INDICATED BELIEF IT MIGHT BE HELPFUL FOR EMBASSY MAKE EFFORT TO BRING HOME TO FMG VIA MINISTRIES OTHER THAN MMP SERIOUSNESS WITH WHICH COMPANIES SEE THE SITUATION. HOWEVER, A THIRD COMPANY SUGGESTED AFTER THE MEETING IT WOULD BE BETTER FOR EMBASSY TO LEAVE MATTER IN COMPANY HANDS, AT LEAST FOR TIME BEING. IN CURCUMSTANCES, WE PLAN TO CONTINUE FOLLOW EVENTS CLOSELY BUT AVOID ANYTHING RESEMBLING DEMARCHE. IF OPPORTUNITY AFFORDS, WE WILL RAISE MATTER INFORMALLY WITH APPROPRIATE FMG OFFICIALS IN EFFORT ENCOURAGE UNDERSTANDING OF WIDER IMPLICATIONS OF PROBLEM, BUT WE WILL TAKE NO FORMAL ACTION PENDING FURTHER CONSULTATION WITH COMPANIES. CONFIDENTIAL

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10. WOULD WELCOME DEPARTMENT'S COMMENTS AND GUIDANCE AND WOULD APPRECIATE BEING KEPT INFORMED IF COMPANIES, OR BRITISH OR DUTCH GOVERNMENTS, RAISE SUBJECT WITH DEPARTMENT. (WE WERE SOMEWHAT SURPRISED TO DISCOVER FROM BRITISH HIGH COMMISSION HERE THAT SHELL-BP HAS NOT BROUGHT MATTER TO COMMISSION'S ATTENTION, IN SPITE OF FACT NEW ARRANGEMENT WOULD ALLEGEDLY PUT SHELL-BP IN SAME LOSS-MAKING SITUATION AS US COMPANIES.) REFTEL BEING REPEATED TO THE HAGUE. CROSBY

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